DOW THEORY LETTERS INC.

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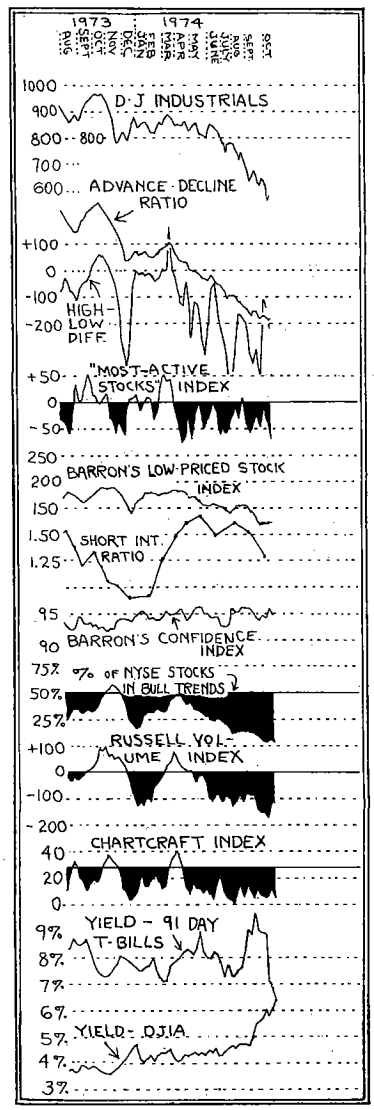
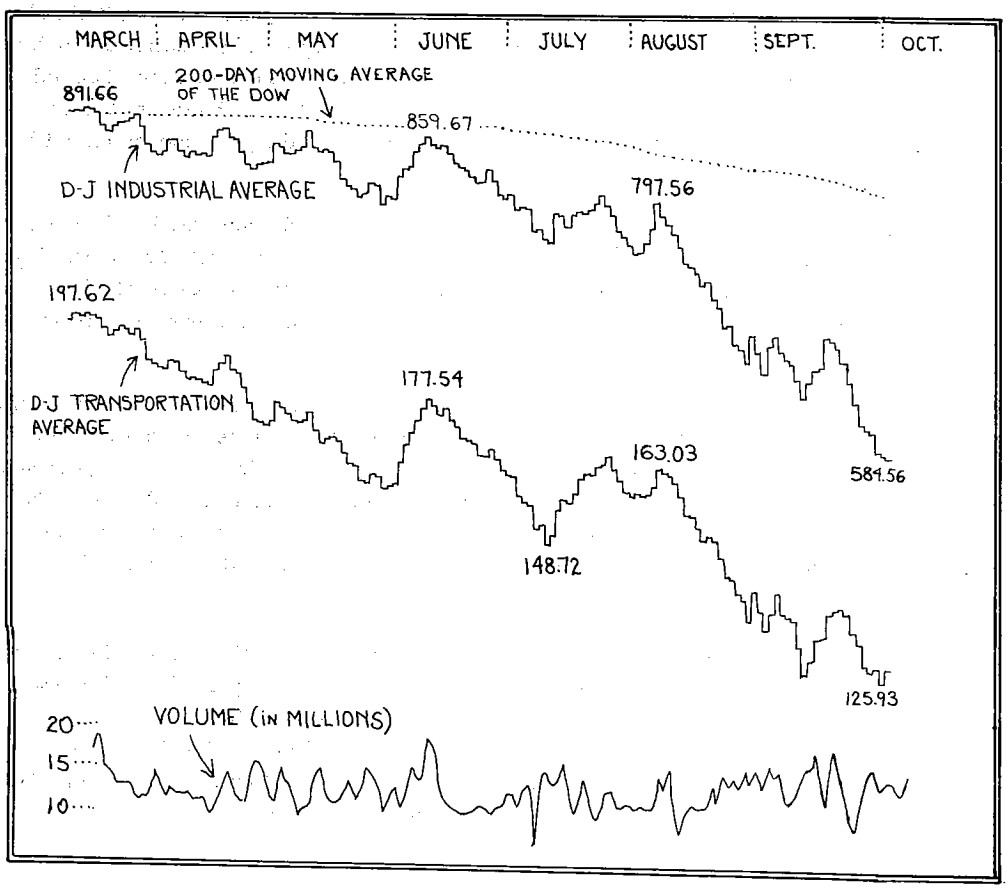


THE MARKET: This is the bear market you will be telling your grandchildren about. It will go down in the history books as a Frankenstein, as a smasher of values and concepts. It will be written about as the destroyer of stocks, bonds, assets and reputations. I have been writing and warning about this primary bear market for a long time. I have been saying that following the great seventeen-year bull market (1949 to 1966), and following eight years of concerted Government attempts to hold back (via inflation) the bear, the nation is facing trouble, massive trouble. Every primary trend ultimately expresses itself, and the longer the primary trend is held back (as this bear market has been held back) the greater the tidal force when the dam finally bursts.

In the last Letter I wrote that (in my opinion) we are at the stage where full attention should be directed to the D-J Industrial Average. For the past eight years, ever since the 1966 bull market top, it was the advance-decline ratio (representative of the entire NYSE) which held steadfastly bearish. It was the A-D ratio which continued to plunge, despite all rallies and deceptive upward explosions in the Dow. Now I feel that the situation is changing. I believe that the Dow Industrials (representative of investment money) will be the bellwether indicator for the bear market.

In the earlier stages of the bear market, the "non-Dow issues," the secondary issues, the medium-sized and smaller companies, these were the ones that were hardest hit. They were the companies with less savvy, less clout, less access to financing or less competitive ability. But now the bear is rising to his full power; he is extending his claws to all areas. And the Dow stocks are the remaining "fat boys." Remember also that the Dow stocks are where the money is. If you need to raise cash for liquidity purposes it hardly pays to sell a few thousand shares of a $2 number. But then there's DuPont and Proctor and Sears and GM.....

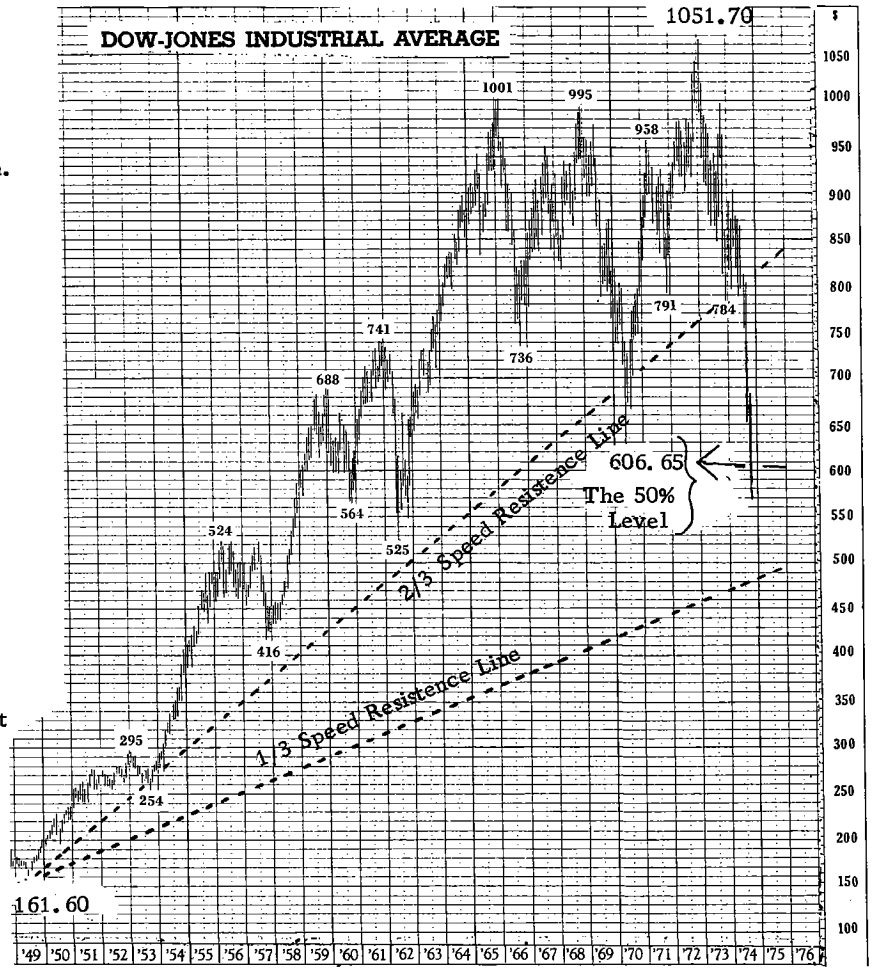


Sometimes in this business you have to go on an intuition or a dream in the night or a strange little squiggle on your chart that you can't get out of your mind. In Letter 607 (August 28) I wrote that one developing characteristic of this bear market is that the Dow has been cutting through previous (supposed) support or resistance areas "as if they didn't exist." I drew attention to the 1961 Dow peak of 734.91, and the famous Dow 1966 low of 744.31. An

ordinary bear market would have tended to hesitate, to test or rally off of a critical area such as the 734-744 area. I noted that the Dow in late-August sliced through the 734-744 area as if it was butter. No hesitation, no testing, just whoosh, right through. It gave me a funny feeling in the pit of my stomach.

Next the 700 level loomed. The Dow never knew 700 was there. That action confirmed my feeling that this bear market was developing a downside head of steam second to none. Some bear markets smash through everything in their paths. This one didn't even notice whether anything was in its path!

The 600-610 area was particularly significant as far as my studies are concerned. Here is why. First, the even numbers (i.e. 400, 500, 600, etc.) tend to be psychological barriers on the upside and psychological resistance or support levels on the downside. It a stock is declining and it breaks 50, it will very likely move down to test 40 on the decline. If it breaks 40 it will probably test 30. Conversely, if a stock is rallying and it betters 60 it will very likely try for 70, and so forth. The same is true of the Dow, and for this reason I thought it was significant when the Dow broke through 900 on November 14, 1973, when it broke through 800 on July 2, 1974, and when it sliced through 700 on August 23, 1974, and when it broke 600 on October 3.



Next, I want to discuss the 50% Principle again, a concept I have written about many times over the years. To put it simply, if, following an extended advance, we have a correction, it is important to note where the correction halts. If the correction holds above the halfway or 50% level of the preceding entire advance, then according to the 50% Principle the situation remains hopeful, with the probability that in time the price movement will come back and test (or even better) the old high. If, however, the correction breaks below the halfway level of the preceding major advance, then the situation is bearish, and the price movement will probably continue extensively lower.

The 1949-1966 primary bull market took the Dow from a low of 161.60 (June, 1949) to a peak of 995.15 (February, 1966). The Dow then extended its advance in a bear rally to the 1973 high of 1051.70. The entire rise from 161.60 to 1051.70 was 890.10 points. The halfway level of that entire rise is exactly 606.65. Therefore, I attached great importance to the 606.65 or halfway level of the entire 1949-1973 Dow advance, and I accorded importance to the 600 level because it was another of the big even numbers and it "should have been" a support level.

The accompanying monthly chart (arithmetic scale) traces the action of the Dow Industrials from 1949 to the present. I have identified the 606.65 or 50% level of the 1949-73 rise. On October 1, 1974, the Dow closed at 604.82, thereby closing under the halfway level (606.65) of the 1949-73 advance for the first time since the highs. I took this event to be extremely bearish for the market (although probably not one in a thousand investors realized that it has occurred). On October 3, following a feeble attempt to rally above the 606.65 point, the Dow broke sharply to close below 600. The whole picture (including the complacency which accompanied the break under 600) appears extremely bearish to me. The decisiveness and single-mindedness with which this market declines is frightening: I've never seen anything like it.

On the same chart I have drawn in 1/3 and 2/3 Speed Resistance Lines (SRL's) after the principles put forth by that outstanding market analyst, Edson Gould. (Subscribers should refer to Letter 598, page 5 for a discussion of SRL's. Extra Xerox copies $2). When the 2/3 SRL was broken in late 1973, it was an indication that the Dow would most likely approach or test the 1/3 SRL. The 1/3 SRL now stands at approximately the 490 level. I continue to believe that the Dow will (in time) test the 490 area. Whether this will happen on straight-line continuance of the current smash or whether it will occur following an upward correction I do not know. But I do believe that the Dow will probe the area below 500. (Dow chart courtesy of Horsey, Salisbury, MD 21801)

Conclusion: I have presented the foregoing technical studies (and I realize that they are "heavy going") because I want readers to realize how ominously I feel this market is acting. Some years ago I wrote that I thought the bear market would ultimately smash down to or below the 1959 high on the Dow (520). At that time a number of readers told me that they thought I had taken leave of my senses. Maybe I'm still "on leave," but I want to present a few more comments and forecasts (and I'm perfectly aware that I could be very wrong on the forecasts):

(1) On October 1, simultaneously with the new Dow break under the 50% level, the D-J 40-Bond Average dropped to an ALL TIME LOW of 64.29. This was below the 1970 low and actually below the 1932 Great Depression low! Here again, I would guess that one in a thousand investors was aware of the extraordinarily bearish performance on the part of the Bond Average. To me, the new bond low is a reflection of illiquidity, massive credit problems and a staggering "non-market" for long-term debt. I have written many times that the Bond market will bottom out first, ahead of the stock market. The D-J 40 Bond market has therefore provided a most bearish signal, a signal which is telling us that the financial foundations of Wall Street are still made of quicksand.

(2) Everywhere, I read that we can't have deflation and depression. Every economist and expert writes that things are very different this time, that it's a whole new world. I'm beginning to feel (and I don't like the feeling) that one can take a contrary opinion on this entire view.

(3) Everyone tells me that stocks are now so low, P/E ratios are so low, that the downside for this bear market is becoming severely limited. I'll remind these people that the stock market is dealing with next year's earnings, not this year's. Current P/E ratios may look high in 1975, so put me down as saying that I believe the market is right and the "experts" are wrong. I received this from an old friend (and author of a Dow Theory book) just last week: "Regarding today's low P/E ratios: In 1930 a well-known financial advisor said, 'Buy Incomes Now!' I bought Anaconda at 55. It was paying $7.50. It cut the dividend to $3.75, and the stock plummeted. The dividend was cut again and eventually omitted. The stock bottomed at 3." (AMS, PA).

(4) I want my readers to understand that today's stock market is most definitely telling us something about the future. It's acting as badly as I've ever seen it act. The A-D ratio, the most-active stock index, the bonds, the Utilities, the median average, the unweighted average, the Dow, almost everything I chart is being washed out on the downside. Yet I swear I have never seen such complacency, considering the events. My conclusion is that we haven't seen the real troubles yet. All we've seen so far is the market barometers falling off the walls.

Over the last nine months the NYSE has seen over $250 billion in values erased. Losses in the much larger bonds markets have been horrendous. You don't see this kind of attrition of assets without repercussions. What we're seeing is capital destruction on a massive scale. The world economies will follow the markets down. By the first quarter of next year, I am afraid we are going to see business in shambles, here and everywhere else.

Why do I continue to write this way? I do it because it's what I believe, and I do it because I know that people move on the basis of two factors, emotions and intelligence. I've wanted my subscribers out of this market for a long time, and I know that only about one-third of them will move on the basis of charts and facts alone. Two-thirds move on their emotions. That's why Dow Theory Letters is not a chart and statistical service. People simply will not act on pure facts and figures. God seems to have given me the gift of getting to people's emotions, and I use it to move people out of bear markets (and I hope to use it to get people into the next bull market).

PHASES: It is important at this time to discuss the three phases of a primary bear market. The three phases are psychological in nature and should not be confused with the price movements. From the phase-identification standpoint, many bear markets in the past have been easy to read. This is because each of the phases happened to correspond with a broad price swing on the downside, and each of those swings happened to be separated by a major upside correction. Other bear markets have been more difficult to read, and there have been cases in which a single broad price decline has encompassed two (psychological) phases with no clear distinction as to where one phase ended and the next began.

The first phase of this primary bear market began in February, 1966, and it ended in October of that year (coinciding with a drop from 995.15 on the Dow to 744.32 that year). The first phase represents the removing of the floss, froth and excitement of the preceding bull market top. The 1966 action did sober the market substantially — but the sobering was not to last.

Classically, the second phase of the bear market is the one in which stocks go down as they discount deteriorating conditions in the social, political and economic background for equities. The second phase is traditionally the longest and most deceptive phase of the bear market. Here, investor sentiment is usually whipped about between the twin poles of hope and fear, and it is a characteristic of the second bear phase for each rally to be greeted with a chorus of "It looks like a new bull market." The second phase of this bear market has been the longest (8 years, so far) on record, and in my opinion the most deceptive in Wall Street annals. The extraordinary upward corrections of 1967-68 and 1971-72 fooled millions of investors into believing a new bull market had started (even though the A-D ratio continued generally down throughout the entire period).

 Now, as the current second phase progresses, the bad news is coming out. It has been emerging during most of 1973 and all through 1974. Stocks have been sagging and crashing as they discount everything from lower earnings to higher interest rates, from confiscation of foreign assets to impending dividend cuts. I feel we are moving steadily toward the end of the second psychological phase of the bear market — but we are not there yet.

Some months back I had felt that when the Dow finally broke below its 1970 low of 631.16, that would about wind up the second phase of the bear market. But I held any final conclusions in abeyance. On September 13 the Dow Industrials did close below the old bear market low of 631.16, yet my studies suggested a continuance of the second phase. I believe that we are still in the second phase as of this writing. We are still in the phase in which the market is going down as it discounts bad news for business and a gathering sea of problems which will adversely affect corporate profits. In a phrase, we are simply witnessing "more of the same," more of the same kind of news which has driven stocks down over the past few years.

Will we have a crash, a high-volume climax as the second phase of this bear market ends? I don't know, but I suspect the answer is "Yes." At present, 70% of all NYSE trading comes from institutions. No one knows whether these institutions will ultimately panic (as the public is prone to do). No one knows whether the institutions will throw tens of millions of shares on the market in the kind of terrifying phenomenon Wall Street terms a "selling climax." Personally, I have little faith in the so-called "professional money managers" (these are the men who handle other peoples' money). I certainly wouldn't want to make a final pronouncement on what they will do as this market moves lower.

My own belief is that we could have a high-volume panic on the downside, a classic crash which would serve to terminate the second phase of the bear market. I have never seen a market that moved persistently in one direction (as this one is doing) which did not turn emotional before the movement had ended. This market has been going down for month after month in one of the most persistent and deadly collapses on record. Yet the market has not (so far) become emotional. I think it will. I think that the professionals will panic. After all, fund managers are human like you and me. As they see their funds shrinking towards the 60%, 50%, 40% level, they will start to feel the great fear. They will hold hasty board meetings. They will hear the board chairman say, "Gentlemen, you've been playing around and hoping long enough. You've been telling yourself that stocks are too cheap to sell for the past five years. That's been five years of pure bunk. We've got to salvage. We've got to buy insurance by salvaging what's left. Gentlemen, we start selling. I might remind you gentlemen: no fund —no fund managers."

Sound far out? Listen to these statistics. Ford foundation assets down over one third. Carnegie Foundation down over 40%. Rockefeller Foundation down over one third. Mott, Kettering, Duke and Luce Foundations down as much as 50%! Then there are the nation's 26,000 other foundations, the profit-sharing funds, the pension funds. And that's how great primary bear markets work (as I've so often written), they shake everything loose that isn't nailed down — everything.

The next question is, will we have a major upward correction prior to going into the third phase? Again, history suggest it, but I simply do not know. Remember, it is always easier to identify a movement than to predict it. For our own purposes, since we are not in ordinary common stocks anyway, it does not matter whether we have an upward correction between the second and third phase of the bear market or not.

New subscribers may ask, what is the third (final) phase of a bear market? The answer is simple. It's the liquidation phase, the phase in which individuals and institutions sell their stocks for whatever the market will bring. And the discouraging thing is that in this stage people sell their holdings for no other reason than that they need to raise cash, they need the money! "It is in the third phase," wrote Robert Rhea in 1938, "that those who have been saving for a rainy day wake up to find that it's raining."

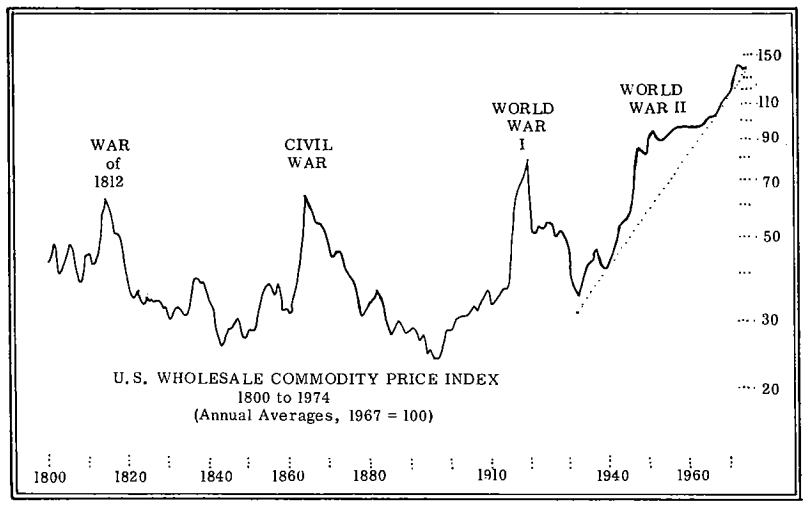
Frankly, I find the concept of the third phase particularly frightening at this time. I find it frightening because the current US and world economic situation is so precarious, so vulnerable. The world is now totally loaded with debt and margin of every variety. In view of what we know about the action during a primary bear market's third phase, I don't look forward to the period in which the final, relentless swapping of stock certificates for cash begins. For if the third phase is the liquidation phase, what can we expect when this bear market's third phase runs headlong into the greatest mass of debt and illiquidity in world history?

In the final analysis, every bear market is a tragedy, a "bringing down the curtain" on the euphoria and dreams of the bull market which preceded. All I can do is tell my readers the story as it unfolds. I've said all along that this is a survival proposition. The great majority of my readers have heard me say that so many times that they have finally believed me, and they have placed themselves in a very defensive position. Others who are aware of my survival warnings via friends who are subscribers or through stray copies of Dow Theory Letters which they may have seen in various places, have (I believe) ceased laughing at the whole survival concept. The bear has become too destructive, too terrifying for even the professional money managers to ignore. The damage is beginning to have its effect on everyone.

THOSE COMMODITIES: Underlying today's widely-advertised inflation is the great push in commodities and specifically in grains. Since the grains make up a large part of the housewife's foods, this particular aspect of the great inflation is stirring up wide publicity. When the people finally start screaming, the politicians get out of their armchairs. Thus, the "Washington

Summit Meetings," the pronouncements from dozens of economists, the black-type newspaper headlines and editorials about the problems of inflation.

I have written many times that I think the stock market is writing the epitaph on inflation. The deflation in Wall Street has been matched only a few times before in history. Perhaps Wall Street is operating in a vacuum, perhaps Wall Street is deflating against perpetual inflation in the economy. Personally, I doubt it.



U.S. WHOLESALE COMMODITY PRICE INDEX
1800 to 1974
(Annual Averages, 1967 = 100)

I am presenting the US Wholesale Commodity Price Index covering the period of 1800 to date. The story is one of a commodity boom during and after each of four wars, followed three out of four times by an extended collapse in commodity prices. The scenario following World War II is different. Here, following the war, we had the enormous government-sponsored inflation, we had Korea and Vietnam, we had the unprecedented increase in the money supply and the steady drop in the purchasing power (value) of the dollar. This inflation has obviously distorted the chart, and on a constant dollar basis the Commodity Price Index would have declined after 1945.

All this notwithstanding, I am of the opinion that we will have a commodity collapse somewhere during the period ahead. Never have I seen such a set-up for contrary opinion as the current situation regarding inflation and even more specifically inflation in commodities. When the commodity smash comes, it will come "out of the clear blue sky" and it will be greeted by amazement by all concerned. It will serve to shatter corporate profits and farm profits, and will cause extraordinary consternation in the ranks of the economists who will still be struggling with the problem of the rise in prices.

I have drawn a trendline on the chart, and it is interesting to note that the commodity price level is now walking up the trendline rather than exploding at an exponential rate. I feel that a breaking of this trendline will herald the collapse in commodity prices.

I keep a weekly chart of the D-J Commodity Future Index, and at present my near-term trendline indicates that a decline to the 310 area would spell "splash" for the commodity picture. This is an area which should prove most interesting and dramatic over the next few months.

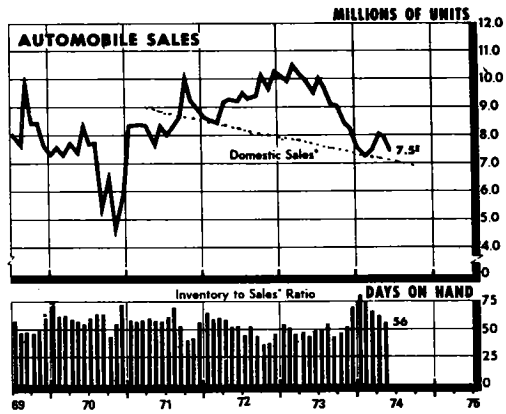
GOLD: I want to continue the gold discussion which I opened up last week. I want to start with one fundamental. Gold is the only real money. Paper money is either (1) an IOU for a specific quantity of gold, and this is called a convertible currency, or (2) a legal tender which is theoretically worth whatever the prevailing legal government says it is worth. In the latter case, a man can buy a pair of shoes or settle a debt with his legal tender. Why, you ask, hasn't the US Government allowed us to purchase gold with our legal tender dollars? Ah, there's the rub. Because the Government knows that it is debasing the currency via inflation, and the Government knows that "good money drives out bad." The boys in Washington know that if they legalized gold and if they continue inflating, there's going to be a run into gold and out of the dollar. To put it mildly, they don't want that. And that's the chance they are taking if they continue to run deficit, continue to inflate, and allow Americans to own gold.

What happens if President Ford goes to Congress in a month or so and succeeds in getting Congress to put off the gold legalization act? I think it would be basically bullish (or at least not bearish for gold). Withholding gold (at least in bullion form) from people will only make it that much more desirable. Besides, Americans can buy bullion in low premium coin form (Austrian Coronas, Mexican Pesos). In time, I believe that the S. African Kruggerand will become the most in-demand form of gold of all. The Kruggerand contains exactly one ounce of gold, it is legal tender at the current price of gold (as far as the S. African government is concerned).

By February, S. Africa will be turning out 300,000 Kruggerands a month, equal to 1/3 of their total gold production. This is a very shrewd move, calculated to make the Kruggerand the international hard money currency and calculated to give the population of the world a stake in gold. In time, I feel the S. African government could put the bulk of their gold output into Kruggerands! What a stir that would make among the paper-printers.

Next, we come to the gold shares themselves. A lot of people prefer brainless "certainty" over reasoned probabilities. Certainty in the stock market is a rare thing, and a good part of it is misplaced (based on hopes and wishes). I want to go into the probabilities of the gold situation as far as the shares are concerned so here goes.

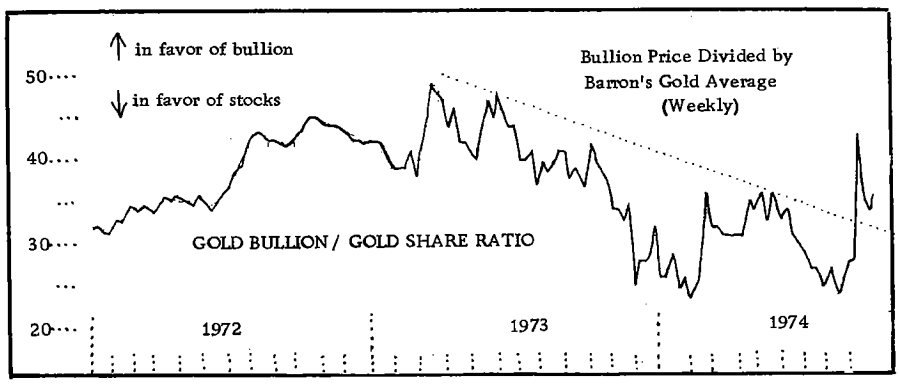
In the last report, I presented a discussion of the gold situation, and I tried to show the "meaning" behind the recent break in the gold shares. Following are some amplifications and additions to those thoughts.



(1) The US has hit the Arabs with tough talk about oil. This is bound to make the Arabs feel increasingly uneasy. It is bound to present them with second thoughts about piling money into the US and buying up US assets willy nilly (the Arabs know all about confiscation, as any oil executive will tell you). Therefore, I feel that the tough US stance (regardless of whether they now soft-pedal it) will move the Arabs deeper into gold. Gold in Arabs coffers is safer than US T-bills or New York Real Estate as far as the sheiks are concerned. Already, new rumors are cropping up to the effect that the Arabs want part-gold payments for oil. All this is bullish for gold.

(2) It is clear that the world economic situation is sinking rapidly. Business is declining rapidly everywhere. Consumers' real buying power is sliding. I don't usually apply technical analysis to business charts, but this looks mighty like a head-and-shoulders top in auto sales (see chart). If it is, auto sales should collapse next year (the stocks are reflecting it now). That means (as I have so often written) that the world will turn to reflation. Reflation means deteriorating paper money values, and that in turn means that it will take more paper to buy each ounce of gold. In all, bearish for the world's economies, bullish for gold.

(3) This is the question I've been pondering deeply. People are becoming distrustful of the abilities of corporations to cope in the present economic and political environment. I spoke of "confiscation of wealth" in the last Letter. I believe that this is going to be the spector of the next few years, as far as individuals and businesses are concerned. If business caves in during 1975 (and I think that it will), the Government is going to run horrendously short of tax receipts. The low income people have the votes, the upper middle and high income individuals do not. Which way do you think the Government is going to go? (Remember Britain and the wealth tax?).



All this may affect gold shares. Common stocks are not money. Gold shares are not money. They are equity in companies which mine gold which is money. Stocks do not represent ultimate value. I think that tax and confiscation uncertainty is a greater risk (here and in Canada) than the racial risk in S. Africa, at least over the next five years.

I appreciate opinions, but I like facts better. Charts deal with facts. I have drawn a chart showing the ratio of Barron's Gold Average to the price of gold. The chart shows us the facts in this situation up to date. In early 1973 investor preference for bullion over shares hit its peak. Then we saw a long trend (as the ratio line declined) toward the shares rather than bullion. But a few weeks ago that trendline was broken as the price of the shares fell sharply while the bullion price held practically constant. Is the ratio breakout the beginning of a major trend towards gold (coins, bullion) over the shares? It could be, but we haven't seen enough ratio action (and time) to know for sure. Could the breakout in favor of bullion be just a correction? Yes, but again, it will take time to know for sure.

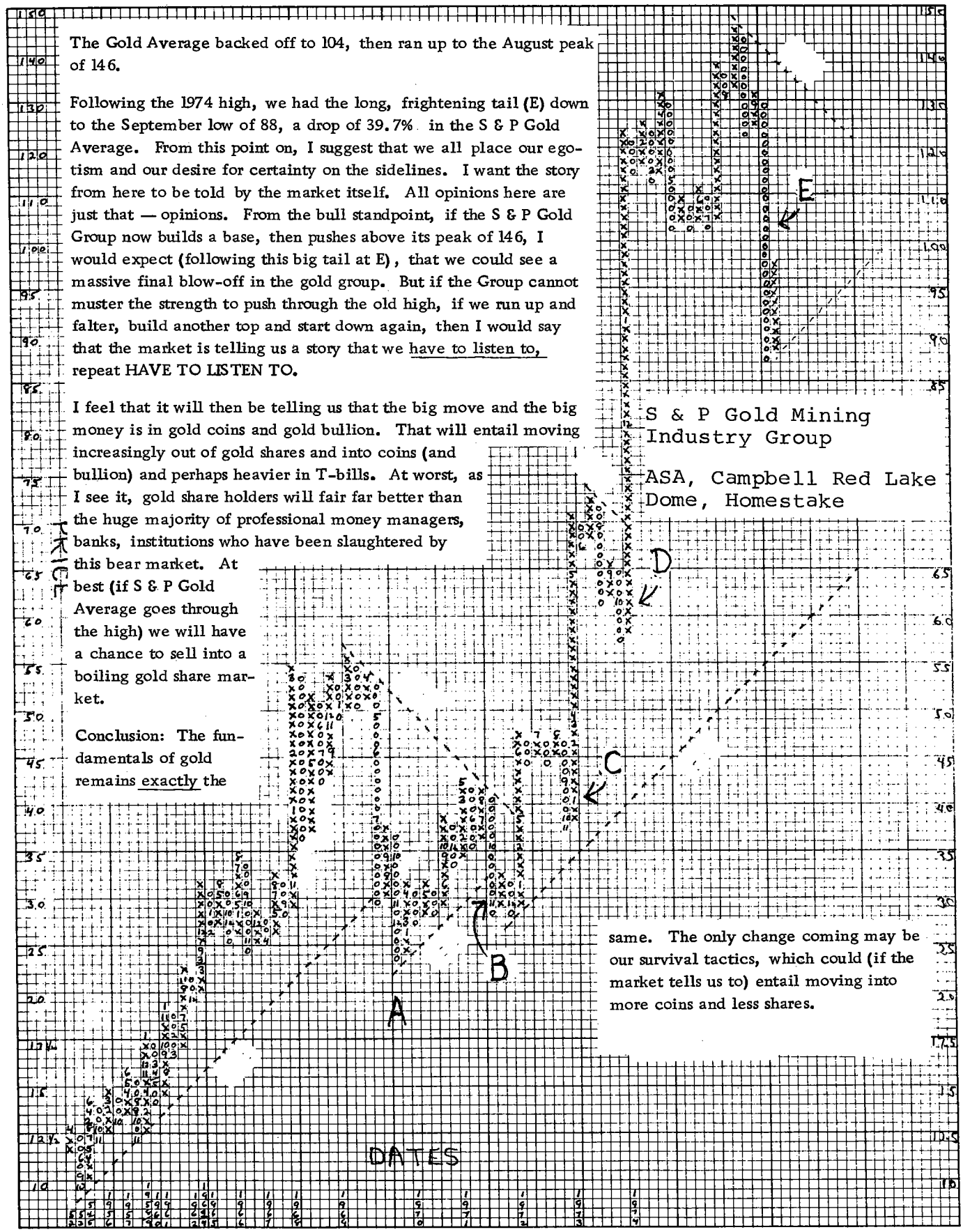
Should the breakout be ignored? No, most definitely not. But I do want to see whether the ratio moves up above its 1973 high. If it does, I feel it will definitely be telling us that the big money is moving into coins and bullion in preference to gold shares. Does this mean it's bearish for gold shares. Not necessarily by a long shot. It means that in relative strength terms, in investor preference terms, big money is going into the metal just as big money (for safety purposes) is now going into Treasury bills rather than C/D's or commercial paper. At this point in the game, investors are opting for safety, and I mean ultra-safety.

What do we do if the ratio breaks above the 1973 high? If that happens, I'll suggest moving our percentage of gold items (25% to 40% of total assets) into more coins, less shares. You don't like the idea? Then you don't follow markets, and you might as well grab your excitement at Las Vegas (where you don't pay commissions and it's all over in a hurry).

Next, I want to show a remarkable chart put out by Chartcraft, Larchmont, NY 10538. It's a point & figure chart of S & P's Gold Average going back to 1952 (dates at bottom). All the rows of X's denote rallies, the O's denote declines. I have included my discussion of this chart below and on page 7.

I believe the gold bull market began in late 1969 (A on chart). Following the first major advance during 1970-71 to 43, we saw a violent correction (B) to 29. This downward move is what we call a "tail," and it can be a very bullish (but scary) phenomenon. The tail often serves to wipe out the speculators, the weak money and the margins, and it can set the stage for the next dynamic advance. But the tail can also represent the beginning of a bear market (and this is the dilemma with every tail formation).

The second major advance took the Golds from 29 to a 1972 peak of 48. Again we had the tail formation, the wipe-out at C. From that reaction which ended at the 1972 low of 38, we had the big 1973 rise to 73 on the S & P Gold Average. A tail-type formation ripped the golds down to the 1973 low of 58 at D. Next came the explosive move to the 1974 high of 132.



The Gold Average backed off to 104, then ran up to the August peak of 146.

Following the 1974 high, we had the long, frightening tail (E) down to the September low of 88, a drop of 39.7% in the S & P Gold Average. From this point on, I suggest that we all place our egotism and our desire for certainty on the sidelines. I want the story from here to be told by the market itself. All opinions here are just that — opinions. From the bull standpoint, if the S & P Gold Group now builds a base, then pushes above its peak of 146, I would expect (following this big tail at E), that we could see a massive final blow-off in the gold group. But if the Group cannot muster the strength to push through the old high, if we run up and falter, build another top and start down again, then I would say that the market is telling us a story that we have to listen to, repeat HAVE TO LISTEN TO.

I feel that it will then be telling us that the big move and the big money is in gold coins and gold bullion. That will entail moving increasingly out of gold shares and into coins (and bullion) and perhaps heavier in T-bills. At worst, as I see it, gold share holders will fair far better than the huge majority of professional money managers, banks, institutions who have been slaughtered by this bear market. At best (if S & P Gold Average goes through the high) we will have a chance to sell into a boiling gold share market.

Conclusion: The fundamentals of gold remains exactly the same. The only change coming may be our survival tactics, which could (if the market tells us to) entail moving into more coins and less shares.

LATE THOUGHTS, COMMENTS: (Written Oct. 7, 1PM NY time). Going through Monday's outpouring of economic data, info, investment advisories, I've never seen such consternation, bouncing around, hedging, soul searching. "Buy signals" have been retracted, "sell signals" have been voided, many (an amazing number) are suddenly talking about "Will-Go," the bond/stock yield indicator (how did they all find it?). I last referred to Will-Go in Letter 606, page 3. Will-Go now predicts a rally of at least two-month's duration starting in mid-October. Could today's big jump in the market be the beginning? Can we trust Will-Go with everyone watching it? Could this be the end of the second phase of the bear market? Too early to tell, but here are a few thoughts.

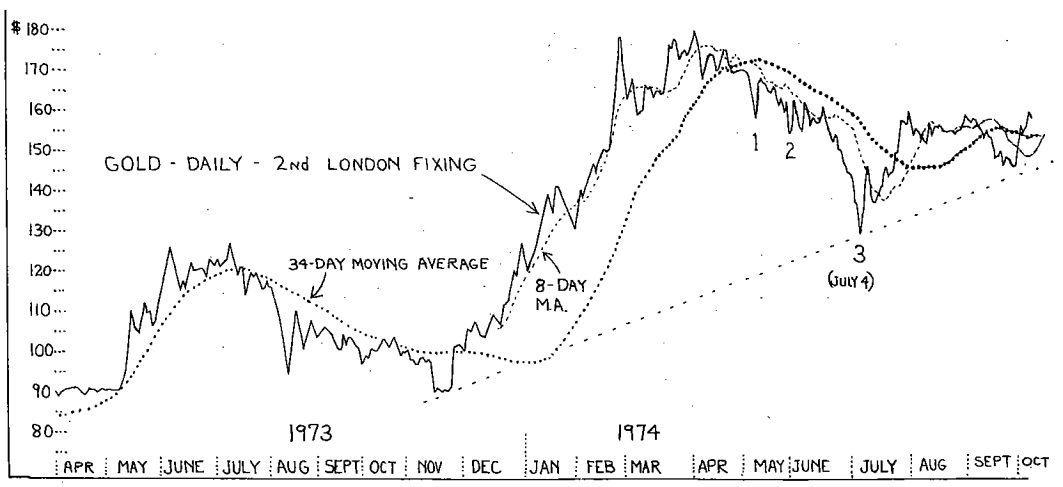
Odd lot shorts simply did not pile in at the October lows. Could the public be so "out of this market" that they won't even short it? My tabulations of downside volume have been very sub-normal, despite the devastating decline to the October 4 Dow low of 584.56. The most-active stock index showed heavy selling right up to the bottom. In the final analysis, I think that one of the most dangerous tactics possible is to guess that the first low of the Dow, following a major plunge, represents the low. Usually the low is tested, following the rally, and traders (assuming you even want to trade) are offered a safer trading entry.

At any rate, for those of us who are awaiting a final third phase bottom for the bear market (not a possible trading bottom), I do not see anything that makes me think Wall Street has entered (much less completed) its third psychological phase. I include two news clips which I think present just a peak at future problems.

In Tom Holt's latest report (Holt Investment Advisory) Mr. H. agrees with me that the Arabs will be big buyers of gold. "Once the Arabs start buying gold," says Thomas, "the effect will be electrifying." Holt thinks the Arabs may be starting their buying now. Again, I repeat that I don't see how the Arabs can avoid buying gold. It's the only value they can ship to their shores which will hold its value and not be subject to attrition, confiscation, or the vagueries of time. I try to place myself in the Arabs' position, and I say to myself that I'd be insane not to at least hedge with a certain percentage of gold (of course, I'd buy through Swiss banks and other non-Arab institutions).

My daily chart of gold shows the 8-day moving average pushing above the 34-day MA on Oct. 7. A decisive breakout above $160 on gold should set the stage for a try at the old $180 high.

COMMENT: The 50-week moving average of the Dow now stands at 813 while the 13-week MA is at 706. This means that the 13-wk. MA is an astounding 107 points below the 50-week MA (see Letter 608, page 2). I need a crossing of the 13-wk. above the 50-wk. for a technical buy signal. This would take at least a few months. These MA buying signals have come towards the early part of most primary advances. Cold blooded conclusion — if it's a bear rally, forget it, if it's a real bull market advance, you've got time.



CASH-STRAPPED FIRMS CUT DOWN PAYOUTS

NEW YORK (AP)—The number of corporate dividend increases fell 18% in September compared with a year ago, and declarations of extra dividends were off 29% as companies found themselves increasingly strapped for cash, according to a monthly dividend report by Standard & Poor's Corp.

The decline in favorable dividend actions last month occurred despite the record pace of corporate earnings, S&P said.

A total of 122 companies increased their dividends in September, compared with 148 a year ago, and 51 declared extra dividends, compared with 72 a year ago.

Meanwhile, eight companies reduced their dividend payments last month, and 16 omitted payments, both figures up from two and nine respectively in Sept. 1973.

Mellon Bank said the value of its stock portfolio dropped sharply.

The Pillsburgh bank reported that as of June 30, the value of its common stock holdings was down $1 billion from the level on Dec. 31, 1973. At the beginning of the six-month period, the portfolio's stocks had a market value of $5.85 billion. But in the face of a diving stock market, it eroded to $4.82 billion. Moreover, the Mellon Bank, reflecting the stock market investment difficulties of many of the nation's largest banks, said that in the 18 months preceding June 30, 1974, its common stock holdings dropped 32%.